



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LYON COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2001

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LYON COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Auditor of Public Accounts has completed the Lyon County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances decreased by \$267,098 from the beginning of the year, resulting in a cash surplus of \$1,185,561 as of June 30, 2001.

Debt Obligations:

Total bonded debt principal as of June 30, 2001, was \$5,025,000. Future collections of \$7,425,590 are needed over the next 20 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$2,013,000 as of June 30, 2001. Future principal and interest payments of \$3,358,733 are needed to meet these obligations.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable James D. Lee, Lyon County Judge/Executive
Members of the Lyon County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Lyon County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Lyon County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Lyon County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001 of Lyon County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable James D. Lee, Lyon County Judge/Executive
Members of the Lyon County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2002 on our consideration of Lyon County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Lyon County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 28, 2002

LYON COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

Fiscal Court Members:

James D. Lee	County Judge/Executive
Charles Ferguson	Magistrate
Steve Cruce	Magistrate
Buddy Nichols	Magistrate

Other Elected Officials:

Lindell Choat	County Attorney
Hank O'Bryan	Jailer
Sarah Defew	County Clerk
Jimmy Campbell	Circuit Court Clerk
P. Kent Murphy	Sheriff
Janice Banister	Property Valuation Administrator
Ronnie Patton	Coroner

Appointed Personnel:

Denise Sutton	County Treasurer
Amy Penn	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

LYON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:			
Cash	\$	391,166	
Road and Bridge Fund:			
Cash		149,476	
Jail Fund:			
Cash		91	
Local Government Economic Assistance Fund:			
Cash		116,135	
Payroll Revolving Account - Cash		<u>19,460</u>	\$ 676,328

Special Revenue Fund Type

911 Fund:			
Cash	\$	63,459	
HB 577 Fund:			
Cash		29,398	
Poor Farm Fund:			
Cash		<u>34,737</u>	127,594

Debt Service Fund Type

Public Properties Corporation Debt Service Fund:			
Cash			401,099

Other Resources

General Fund Type

General Fund:			
Amounts to be Provided in Future Years for Capital			
Lease Obligations - Waterline Principal Payments (Note 5)			98,000
Road Fund:			
Amounts to be Provided in Future Years for Capital			
Lease Obligations - Road Construction Principal Payments (Note 5)			1,040,000

The accompanying notes are an integral part of the financial statements.

LYON COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Total Assets and Other Resources (Continued)

Other Resources

Debt Service Fund Type

Public Properties Corporation Debt Service Fund:

Amounts to be Provided in Future Years for

Bond Principal Payments (Note 5)

\$ 4,623,901

Amounts to be Provided in Future Years for

Capital Lease Principal Payments (Note 5)

875,000 \$ 5,498,901

Total Assets and Other Resources

\$ 7,841,922

Liabilities and Fund Balances

Liabilities

General Fund Type

General Fund:

Capital Lease Principal Payments (Note 5)

\$ 98,000

Road and Bridge Fund:

Capital Lease Principal Payments (Note 5)

1,040,000

Payroll Revolving Account

19,460 \$ 1,157,460

Debt Service Fund Type

Public Properties Corporation Fund:

Bond Principal Payments (Note 5)

\$ 5,025,000

Capital Lease Principal Payments (Note 5)

875,000 5,900,000

The accompanying notes are an integral part of the financial statements.

LYON COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances (Continued)

Fund Balances

Unreserved:

General Fund Type

General Fund	\$	391,166	
Road and Bridge Fund		149,476	
Jail Fund		91	
Local Government Economic Assistance Fund		<u>116,135</u>	\$ 656,868

Special Revenue Fund Type

911 Fund	\$	63,459	
HB 577 Fund		29,398	
Poor Farm Fund		<u>34,737</u>	<u>127,594</u>

Total Liabilities and Fund Balances			<u><u>\$ 7,841,922</u></u>
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The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

LYON COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 2,070,922	\$ 1,203,497	\$ 614,188	\$ 61,778
Transfers In	269,121	83,285		73,100
Kentucky Advance Revenue Program	423,000	423,000		
Public Properties Corporation:				
Construction Fund Interest	13,261			
Debt Service Fund Interest	17,734			
Debt Service Fund - Administrative				
Office of Courts Lease Payment	248,713			
Total Cash Receipts	<u>\$ 3,042,751</u>	<u>\$ 1,709,782</u>	<u>\$ 614,188</u>	<u>\$ 134,878</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,857,646	\$ 1,093,079	\$ 483,225	\$ 134,843
Public Properties Corporation				
Construction Costs	357,757			
Bond Principal Payment	386,325			
Transfers Out	269,121	73,100	66,282	
Capital Lease				
Principal Paid	16,000	4,000	12,000	
Kentucky Advance Revenue Program				
Repaid	423,000	423,000		
Total Cash Disbursements	<u>\$ 3,309,849</u>	<u>\$ 1,593,179</u>	<u>\$ 561,507</u>	<u>\$ 134,843</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (267,098)	\$ 116,603	\$ 52,681	\$ 35
Cash Balance - July 1, 2000	<u>1,452,659</u>	<u>274,563</u>	<u>96,795</u>	<u>56</u>
Cash Balance - June 30, 2001	<u>\$ 1,185,561</u>	<u>\$ 391,166</u>	<u>\$ 149,476</u>	<u>\$ 91</u>

The accompanying notes are an integral part of the financial statements.

LYON COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
Fiscal Year Ended June 30, 2001
(Continued)

General Fund Type	Special Revenue Fund Type				Capital Projects Fund Type
Local Government Economic Assistance Fund	911 Fund	HB 577 Fund	Poor Farm Fund	Federal Grant Fund	Public Properties Corporation Construction Fund
\$ 32,863	\$ 3,773	\$ 29,398	\$ 1,721	\$ 123,704	\$
					13,261
<u>\$ 32,863</u>	<u>\$ 3,773</u>	<u>\$ 29,398</u>	<u>\$ 1,721</u>	<u>\$ 123,704</u>	<u>\$ 13,261</u>
\$ 15,872	\$ 6,885	\$	\$ 38	\$ 123,704	\$
					357,757
					129,739
<u>\$ 15,872</u>	<u>\$ 6,885</u>	<u>\$ 0</u>	<u>\$ 38</u>	<u>\$ 123,704</u>	<u>\$ 487,496</u>
\$ 16,991	\$ (3,112)	\$ 29,398	\$ 1,683	\$ 0	\$ (474,235)
99,144	66,571		33,054		474,235
<u>\$ 116,135</u>	<u>\$ 63,459</u>	<u>\$ 29,398</u>	<u>\$ 34,737</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

LYON COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 Fiscal Year Ended June 30, 2001
 (Continued)

	Debt Service Fund Type
	Public Properties Corporation Debt Service Fund
<u>Cash Receipts</u>	
Schedule of Operating Revenue	\$
Transfers In	112,736
Kentucky Advance Revenue Program	
Public Properties Corporation:	
Construction Fund Interest	
Debt Service Fund Interest	17,734
Debt Service Fund - Administrative	
Office of Courts Lease Payment	<u>248,713</u>
Total Cash Receipts	<u>\$ 379,183</u>
<u>Cash Disbursements</u>	
Comparative Schedule of Final Budget and Budgeted Expenditures	\$
Public Properties Corporation	
Construction Costs	
Bond Principal Payment	386,325
Transfers Out	
Capital Lease	
Principal Paid	
Kentucky Advance Revenue Program	
Repaid	<u></u>
Total Cash Disbursements	<u>\$ 386,325</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (7,142)
Cash Balance - July 1, 2000	<u>408,241</u>
Cash Balance - June 30, 2001	<u><u>\$ 401,099</u></u>

The accompanying notes are an integral part of the financial statements.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Lyon County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Lyon County Public Properties Corporation as part of the reporting entity.

Lyon County Public Properties Corporation

The fiscal court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Financial information for the Public Properties Corporation is blended within Lyon County's financial statements.

Additional Lyon County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Lyon County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Lyon County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed on the next page.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Lyon County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The 911 Fund, HB577 Fund, Poor Farm Fund and the Federal Grant Fund of the Fiscal Court are reported as Special Revenue Fund Types.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Debt Service Fund.

4) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Public Properties Corporation Construction Fund of the Fiscal Court is reported as a Capital Projects Fund Type.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Lyon County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget (Continued)

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Debt Service Fund and the Public Properties Corporation Construction Fund because bond indentures and other relevant contractual provisions require specific payments to and from these funds annually. The Department for Local Government does not require these funds to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture.

The Lyon County Joint-Tourism Commission is a joint venture of Lyon County, the City of Kuttawa, and the City of Eddyville. Lyon County Joint-Tourism Commission was created to promote tourism in Lyon County.

The Lyon County Planning and Zoning Commission is a joint venture of Lyon County, the City of Kuttawa, and the City of Eddyville. The Planning and Zoning Commission was created to facilitate consistency of planning and zoning laws within Lyon County.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Joint Ventures (Continued)

The Lyon County Port Authority is a joint venture of Lyon County, the City of Kuttawa, and the City of Eddyville. The Lyon County Port Authority was created to promote economic development within Lyon County.

The North Pennyryle E-911 Fund is a joint venture of the Kentucky State Police and Lyon, Caldwell, Crittenden, Livingston, and Union Counties. This fund was created to distribute E-911 taxes collected on phone services for the aforementioned counties and Kentucky State Police and to pay related E-911 expenses.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

A. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 4. Lease-Purchase Agreements

The county has entered into the following lease-purchase agreements:

Liabilities of the General Fund are:

Description	Purchase Date	Maturity Date	Interest Rate	Amount
Mobile Office Unit	5/20/1997	5/20/2002	5.67%	\$ 8,600
Sheriff Vehicles	5/20/1999	5/20/2002	4.57%	7,600
Sheriff Vehicles	7/7/2000	7/20/2003	4.75%	15,011

Note 5. Long-Term Debt

A. Public Properties Corporation First Mortgage Revenue Bonds

The Lyon County Public Properties Corporation issued First Mortgage Revenue Bonds (Courthouse Annex Project) Series 1999 for funding of construction of a new Annex facility. Interest varies from 3.75% to 5.0% and is payable for 22 years. The Lyon County Public Properties Corporation has leased the building to the Commonwealth of Kentucky, Administrative Office of the Courts (AOC), and AOC is providing the debt service payments as prescribed in the aforementioned lease. The principal balance as of June 30, 2001 is \$5,025,000. Payments of principal and interest are as follows:

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
2001-2002	\$ 225,590	\$ 165,000
2002-2003	219,403	170,000
2003-2004	212,942	175,000
2004-2005	206,118	185,000
2005-2006	198,718	190,000
2006-2011	871,293	1,080,000
2011-2016	618,500	1,345,000
2016-2021	249,125	1,715,000
Totals	<u>\$ 2,801,689</u>	<u>\$ 5,025,000</u>

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 5. Long-Term Debt (Continued)

B. Courthouse Project-Capital Lease

The Lyon Fiscal Court and the Lyon County Public Properties Corporation entered into a capital lease agreement with the Kentucky Area Development District on October 14, 1999 for funding for the completion of a courthouse project. Interest is payable at an average rate of 6.07% for 25 years. The debt service payments related to this project are being made by the Administrative Office of the Courts. The principal balance as of June 30, 2001 is \$875,000. Payments of principal and interest are as follows:

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
2001-2002	\$ 53,480	\$ 5,000
2002-2003	53,205	5,000
2003-2004	52,930	5,000
2004-2005	52,655	5,000
2005-2006	52,380	5,000
2006-2011	257,775	25,000
2011-2016	250,638	25,000
2016-2021	243,325	205,000
2021-2024	75,005	595,000
Totals	<u>\$ 1,091,393</u>	<u>\$ 875,000</u>

C. Road Construction Capital Lease

The Lyon County Fiscal Court entered into a capital lease agreement with the Kentucky Area Development District on August 6, 1998 for funding of road construction in the amount of \$1,405,000. Interest is payable at a rate of 4.83% for 10 years to Fifth Third Bank. The principal balance as of June 30, 2001 is \$1,040,000. Payments of principal and interest are as follows:

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
2001-2002	\$ 50,180	\$ 130,000
2002-2003	44,200	130,000
2003-2004	38,220	140,000
2004-2005	31,360	150,000
2005-2006	24,010	155,000
2006-2008	24,745	335,000
Totals	<u>\$ 212,715</u>	<u>\$ 1,040,000</u>

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 5. Long-Term Debt (Continued)

D. Waterlines Capital Lease

The Lyon County Fiscal Court entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust on December 16, 1991 for funding of waterlines for the Lyon County Water District in the amount of \$130,000 for 25 years.

The Lyon County Fiscal Court refinanced this capital lease agreement on May 7, 2001. The amount refinanced was \$98,000. The interest is payable at a rate of 4.45% for 15 years. The principal balance as of June 30, 2001 is \$98,000. Payments of principal and interest are as follows:

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
2001-2002	\$ 4,922	\$ 5,000
2002-2003	4,665	5,000
2003-2004	4,409	5,000
2004-2005	4,131	6,000
2005-2006	3,823	6,000
2006-2011	14,402	32,000
2011-2016	5,273	39,000
	<hr/>	<hr/>
Totals	\$ 41,625	\$ 98,000
	<hr/>	<hr/>

Note 6. Insurance

For the fiscal year ended June 30, 2001, Lyon County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

LYON COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,287,798	\$ 1,203,497	\$ (84,301)
Road and Bridge Fund	593,222	614,188	20,966
Jail Fund	59,291	61,778	2,487
Local Government Economic Assistance Fund	28,073	32,863	4,790
<u>Special Revenue Fund Type</u>			
Federal Grant Fund	500,000	123,704	(376,296)
911 Fund	77,000	3,773	(73,227)
Poor Farm Fund	1,200	1,721	521
HB 577 Fund	18,000	29,398	11,398
Totals	<u>\$ 2,564,584</u>	<u>\$ 2,070,922</u>	<u>\$ (493,662)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 2,564,584
Add: Other Financing Sources:			423,000
Add: Budgeted Prior Year Surplus			291,000
Less: Other Financing Uses			<u>(439,000)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 2,839,584</u>

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SCHEDULE OF OPERATING REVENUE

LYON COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

Revenue Categories	GOVERNMENTAL FUND TYPE		
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type
Taxes	\$ 447,913	\$ 447,913	\$
In Lieu Tax Payments	159,449	159,449	
Licenses and Permits	8,010	8,010	
Intergovernmental Revenues	1,320,295	1,167,550	152,745
Charges for Services	33,434	33,434	
Miscellaneous Revenues	30,038	30,038	
Interest Earned	71,783	65,932	5,851
Total Operating Revenue	<u>\$ 2,070,922</u>	<u>\$ 1,912,326</u>	<u>\$ 158,596</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

LYON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 687,593	\$ 674,896	\$ 12,697
Protection to Persons and Property	169,057	147,920	21,137
General Health and Sanitation	279,893	78,015	201,878
Social Services	25,500	14,438	11,062
Recreation and Culture	97,341	94,707	2,634
Roads	542,968	432,398	110,570
Debt Service	2,000	9,515	(7,515)
Administration	439,032	275,130	163,902
Total Operating Budget - All General Fund Types	\$ 2,243,384	\$ 1,727,019	\$ 516,365
Other Financing Uses:			
Borrowed Money-			
Kentucky Advanced Revenue			
Program - Principal	423,000	423,000	
Capital Lease Agreement-			
Principal on Lease	4,000	4,000	
Capital Lease Agreement-			
Principal on Lease	12,000	12,000	
TOTAL BUDGET - ALL GENERAL FUND TYPES	<u>\$ 2,682,384</u>	<u>\$ 2,166,019</u>	<u>\$ 516,365</u>
Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 18,000	\$	\$ 18,000
Protection to Persons and Property	77,000	6,885	70,115
Social Services	501,200	123,742	377,458
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 596,200</u>	<u>\$ 130,627</u>	<u>\$ 465,573</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable James D. Lee, Lyon County Judge/Executive
Members of the Lyon County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Lyon County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated March 28, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Lyon County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lyon County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 28, 2002

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

LYON COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAMS

LYON COUNTY FISCAL COURT

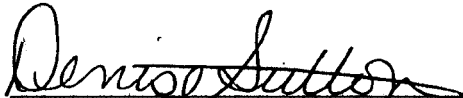
Fiscal Year Ended June 30, 2001

The Lyon County Fiscal Court hereby certifies that assistance received from the Local Government Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name

County Judge/Executive



Name

County Treasurer

LYON COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000
AND
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

LYON COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2001 and 2000
and
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

LYON COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
Years Ended December 31, 2001 and 2000

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Sandra K. Boyd
Kendra S. Bucciarelli
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Johnnie D. Jackson

INDEPENDENT AUDITOR'S REPORT

To the Members of the Commission
Lyon County Water District

We have audited the accompanying balance sheets - statutory basis of Lyon County Water District as of December 31, 2001 and 2000, and the related statements of revenue and expenses - statutory basis and changes in fund equity - statutory basis for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared in conformity with the accounting practices prescribed by the Public Service Commission of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. Accordingly, a statement of cash flows is not required to be included in the financial statements.

In our opinion, because of the District's policy to prepare its financial statements on the basis of accounting discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with generally accepted accounting principles, the financial position of Lyon County Water District as of December 31, 2001 and 2001, or the results of its operations for the years then ended.

However, in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities, and fund equity of Lyon County Water District as of December 31, 2001 and 2000, and its revenue, and expenses, and the changes in its retained earnings for the years then ended, on the basis of accounting described in Note 1.

In accordance with **Government Auditing Standards**, we have also issued a report dated February 15, 2002 on our consideration of Lyon County Water District's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

Thurman Campbell & Co.

February 15, 2002

LYON COUNTY WATER DISTRICT
BALANCE SHEETS - STATUTORY BASIS
December 31, 2001 and 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
Utility plant	\$ 5,245,196	\$ 5,230,657
Less accumulated depreciation	<u>1,463,910</u>	<u>1,314,251</u>
	<u>3,781,286</u>	<u>3,916,406</u>
Restricted assets:		
Reserve fund	162,500	150,412
Interest receivable, reserve fund	6,403	5,927
Cash	<u>120,388</u>	<u>130,406</u>
	<u>289,291</u>	<u>286,745</u>
Current assets:		
Cash	177,473	116,375
Accounts receivable:		
Trade	36,002	34,949
Inventory	22,831	14,135
Prepaid expenses	<u>2,875</u>	<u>2,801</u>
Total current assets	<u>239,181</u>	<u>168,260</u>
Other assets:		
Deposits	560	560
Unamortized debt expense	<u>24,026</u>	<u>24,862</u>
	<u>24,586</u>	<u>25,422</u>
	<u><u>\$ 4,334,344</u></u>	<u><u>\$ 4,396,833</u></u>

<u>FUND EQUITY AND LIABILITIES</u>	<u>2001</u>	<u>2000</u>
Fund equity:		
Grants in aid of construction	\$ 1,719,000	\$ 1,719,000
Contributions from customers	1,311,146	1,273,820
Retained earnings (deficit)	(565,383)	(550,353)
Total fund equity	<u>2,464,763</u>	<u>2,442,467</u>
Long-term debt, less current maturities	<u>1,755,481</u>	<u>1,788,491</u>
Current liabilities:		
Current maturities of long-term debt	15,000	32,102
Note payable	24,287	24,287
Accounts payable:		
Trade	26,328	40,142
Withholdings and related	228	0
Accrued expenses:		
Taxes	1,401	1,359
Interest	46,856	67,985
Total current liabilities	<u>114,100</u>	<u>165,875</u>
	<u>\$ 4,334,344</u>	<u>\$ 4,396,833</u>

The accompanying notes are an integral part of these financial statements.

LYON COUNTY WATER DISTRICT
STATEMENTS OF REVENUES AND EXPENSES - STATUTORY BASIS
Years Ended December 31, 2001 and 2000

	2001	2000
Water sales, net of refunds	\$ 575,961	\$ 559,504
Operating expenses	373,509	331,672
Taxes other than income	2,948	0
Total operating expenses before depreciation and amortization	376,457	331,672
Operating income before depreciation and amortization	199,504	227,832
Less depreciation and amortization	150,495	148,003
Operating income	49,009	79,829
Add non-operating income:		
Interest income	21,963	17,220
Miscellaneous receipts	3,175	0
Total operating and non-operating income	74,147	97,049
Less non-operating expenses:		
Interest expense	89,177	93,295
Net (loss) income	\$ (15,030)	\$ 3,754

The accompanying notes are an integral part of the financial statement.

LYON COUNTY WATER DISTRICT
 STATEMENTS OF CHANGES IN FUND EQUITY - STATUTORY BASIS
 Years Ended December 31, 2001 and 2000

	<u>Grants In Aid of Construction</u>	<u>Contributions From Customers</u>	<u>Retained Earnings (Deficit)</u>
Balance - January 1, 2000	\$ 1,719,000	\$ 1,226,484	\$ (554,107)
Customer tap-ons and line extension charges		47,336	
Net income			<u>3,754</u>
Balance December 31, 2000	1,719,000	1,273,820	(550,353)
Customer tap-ons and line extension charges		37,326	
Net loss			<u>(15,030)</u>
Balance December 31, 2001	<u>\$ 1,719,000</u>	<u>\$ 1,311,146</u>	<u>\$ (565,383)</u>

The accompanying notes are an integral part of the financial statement.

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Activity - The Lyon County Water District is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Kuttawa, Kentucky and primarily serves the Lyon County Kentucky area.

Principles determining scope of reporting entity - The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement. The District's Board members are appointed by the County Judge Executive, a publicly elected official, and they have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Basis of accounting - The accompanying financial statements have been prepared on the basis of accounting in accordance with the provision of the Public Service Commission of Kentucky. Such basis differs from generally accepted accounting principles in that customer connection fees and grants are reported as contributed capital rather than revenue and the related costs of providing such connections have been capitalized as depreciable assets.

Income from sales of water is recognized when billed to consumers. All consumers are billed on a cyclical billing basis which results in unbilled water sales at the end of the fiscal year. This billing method is used by most water districts.

Costs of water purchases are recognized when billed by the supplier. These billings are for water used through the middle of the month, which results in unrecorded water costs for the remaining days of December.

Accounts receivable - The direct write-off method was used for recording uncollectible accounts. No allowance for uncollectible accounts was deemed to be needed. The District grants credit to customers, substantially all of whom are residents of Lyon County.

Materials and supplies - Inventories consist of materials and supplies and are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

Utility plant - The utility plant is carried at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized. Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as equity contributions when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenue and expense.

Intangible assets - Financing and bond issue costs are being amortized over the life of the debt on the straight-line basis.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Taxes on income - The Lyon County Water District is exempt from paying income taxes under Section 115 of the Internal Revenue Code.

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

2 CASH

Separate and special bank accounts were established by the Water Revenue Bonds - Series of 1995 bond ordinance dated October 3, 1995.

Revenue fund - All income and revenues derived from the operation of the system shall be deposited promptly and as received to the Lyon County Water District Water Revenue Fund. The monies deposited into the Revenue Fund shall be expended only in the manner and order as follows:

- (1) Lyon County Water District KIA Loan Repayment Fund
- (2) Lyon County Water Revenue Bond and Interest Sinking Fund of 1995
- (3) Depreciation Reserve Fund
- (4) Lyon County Loan Fund
- (5) Operation and Maintenance Fund.

Lyon County Water District KIA Loan Repayment Fund - The KIA Loan Fund was established for the purpose of paying the principal and interest on the Kentucky Infrastructure Authority note. The ordinance requires that the amount deposited each month equals one-sixth of the next succeeding interest requirement of the next succeeding interest due date and one-twelfth of the principal requirements becoming due on the note on the next succeeding January 1. At December 31, 2001 the balance of the KIA Loan Fund was \$21,525.

Lyon County Water Revenue Bond and Interest Sinking Fund of 1995 - The sinking fund was established for the purpose of paying the principal and interest on the Water Revenue Bonds - Series of 1995. The ordinance requires that the amount deposited each month equals one-sixth of the next succeeding interest requirement of the next succeeding interest due date and one-twelfth of the principal requirements becoming due on the note on the next succeeding January 1. At December 31, 2001 the balance of the Sinking Fund was \$58,140.

Depreciation Reserve - The ordinance requires Lyon County Water District to make monthly contributions to this fund after observing the priority of deposits into the KIA Loan Fund and the Sinking Fund. The funds in the Depreciation Fund can be expended for the purpose of paying the cost of unusual or extra-ordinary maintenance, repairs, renewals or replacements, and the cost of constructing additions and improvements to the system. Under the ordinance the District is to make \$510 monthly deposits until a required minimum balance of \$61,200 is met. At December 31, 2001 the balance of the Depreciation Reserve Fund was \$33,149, which equals the required December 31, 2001 balance.

Lyon County Loan Fund - This account shall be maintained and monthly transfers shall be made from the revenue fund in amounts sufficient to amortize the county loan. At December 31, 2001 the balance of the Lyon County Loan Fund was \$7,574.

The above accounts, totaling \$120,388, are reported as restricted cash at December 31, 2001.

Operations and Maintenance Fund - Transfers shall be made monthly from the Revenue Fund to the Operations and Maintenance Fund so that the various operation and maintenance expenses of such system are met and a two (2) month operating reserve established and maintained. Any funds remaining in such Operation and Maintenance Fund after meeting the expenses of operating such system shall be transferred to the Revenue Fund and disbursed in accordance with the above provisions until such time as the Sinking Fund and Depreciation Fund are current and the required balances established; and then excess funds may be invested in direct obligations of or obligations which are fully guaranteed by the United State Government with such maturities so that moneys shall be available in the respective Funds for the purposes for which same are established.

Deposits - As of December 31, 2001, the carrying amount of the District's deposits was \$297,861 and the bank balance was \$299,624. Of these amounts \$100,000 was covered by federal depository insurance. The remainder of the bank balances are collateralized by securities held by the pledging financial institutions.

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

3 RESERVE FUND

At December 31, 2001, the District has on deposit \$162,500 with Kentucky Infrastructure Authority. The funds on deposit are earning current market interest rates. The fund was established by a loan agreement dated January 1, 1989 for the purpose of providing balloon payments of principal and interest as follows:

January 1, 2012	\$ 96,546
January 1, 2015	<u>339,623</u>
	<u>\$ 436,169</u>

Accrued interest receivable was \$6,403 and \$5,947 at December 31, 2001 and 2000, respectively.

4 UTILITY PLANT

The utility plant consist of the follows:

	Balance January 1, 2001	Additions (Eliminations)	Balance December 31, 2001	Estimated Useful Lives
Land	\$ 21,190	\$	\$ 21,190	
Building	64,199		64,199	
Water distribution system	4,532,808	14,539	4,547,347	40 years
Lake Barkley line	149,765		149,765	30 years
Water tank	358,440		358,440	10 years
Equipment	104,255		104,255	5 - 10 years
	<u>\$ 5,230,657</u>	<u>\$ 14,539</u>	<u>\$ 5,245,196</u>	

Depreciation charged to income was \$149,659 and \$147,167 at December 31, 2001 and 2000, respectively.

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

5 LONG-TERM DEBT

The District's long-term debt at December 31, 2001 consisted of the following:

Note payable to Kentucky Infrastructure Authority, bearing interest at 3.75 to 5.375 percent, due January 1, 2015. Interest due semi-annually on January 1 and July 1 and principal due annually on January 1.	\$ 714,481
--	------------

Note payable to Kentucky Association of Counties Leasing Trust, bearing interest at 6.31 percent, before Commonwealth of Kentucky offset producing an effective rate of 5.31 percent, due January 1, 2016. Interest due monthly and principal due annually on January 1.	98,000
--	--------

Rural Economic Development. Water Revenue Bond - Series 1995 bearing interest at 4.875 percent due January 1, 2035. Interest due semi-annually on January 1 and July 1 and principal due annually on January 1.	958,000
---	---------

1,770,481

Less current portion	(15,000)
----------------------	----------

\$ 1,755,481

Maturities for the next five years are as follows:

2002	\$ 15,000
2003	35,037
2004	37,995
2005	37,784
2006	40,857
Thereafter	<u>1,603,808</u>
	<u>\$ 1,770,481</u>

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

An ordinance of the Board of Commission, adopted on October 3, 1995, the District authorized and thereafter issued its \$996,000 "Water Revenue Bonds, Series 1995" for the purpose of providing funds for the installation of major extensions and additions to the system. All bonds of this issue maturing on or after January 1, 1999 shall be subject to redemption or prepayment at the option of the District prior to maturity in whole, or from time to time, in part, in the inverse order at par plus accrued interest provided that Rural Economic Development is holder of the bonds.

The bonds referred to above mature as to principal in installments on January 1, in each of the years and shall bear interest from their issue dates until payment of principal. Interest is payable semiannually on June 1 and January 1, of each year as established by the ordinance.

All the Revenue Bonds are payable solely from, and secured by, a first pledge of the water revenues. So long as any of the bonds are outstanding and unpaid, the District shall continuously be maintained and operated in good condition. Rates and charges for services rendered will be imposed and collected so that gross revenues will be sufficient at all times, to provide for the payment of the operation and maintenance of the water plant, and to maintain the Depreciation and Sinking Funds described in Note 2.

If there is any default in the payment of the principal or interest on any of the outstanding bonds, and suit is filed by a holder of said bond, and court having jurisdiction may appoint a receiver to administer the District with the power to charge and collect rates. These collected rates shall be sufficient to provide for the payment of the outstanding bonds, and the operating and maintenance expenses. The income and revenues shall be in conformity with the bond resolution, and the provisions of the applicable laws of Kentucky.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable. The District must maintain adequate public liability insurance including fire, windstorm, fidelity bonds, and the hazards covered by a standard extended coverage policy.

A summary of changes in long-term debt is as follows:

	Balance January 1, 2001	Proceeds	Repayments	Balance December 31, 2001
KY Infrastructure Authority	\$ 750,593	\$ 0	\$ 36,112	\$ 714,481
KY Association of Counties	102,000		4,000	98,000
Rural Economic Development	968,000		10,000	958,000
	<u>\$ 1,820,593</u>	<u>\$ 0</u>	<u>\$ 50,112</u>	<u>\$ 1,770,481</u>

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

6 CONTRACT FOR WATER SUPPLY

The District entered into contracts with the City of Eddyville, the City of Kuttawa, and the City of Princeton, Kentucky, which states that the Cities will provide water to the District.

The District has contracted with the City of Princeton, Kentucky to acquire water at the City's normal rates.

7 COMMERCIAL INSURANCE

It is the policy of the District to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability and fidelity bond coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

8 INTEREST EXPENSE

The District incurred net interest cost during the year of \$89,177, which has been recognized as a current operating expense.

9 CONTINGENCIES

The District participates in federal and state assisted grant programs for construction of water lines. These programs are subject to review by grantors or their representatives. As of December 31, 2001, there has been no material questioned or disallowed costs as a result of grant audits. As construction is completed, amounts due from grant funds are recognized and are recorded as contributed capital.

Under the terms of the bond ordinance authorizing the issuance of the "Water Revenue Bonds - Series 1995" the District is required to meet certain debt covenants. Those covenants are described in detail in Notes 2 and 5.

COMPLIANCE REPORTING



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REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Members of the Commission
Lyon County Water District

We have audited the financial statements of the Lyon County Water District for the year ended December 31, 2001, and have issued our report thereon dated February 15, 2002. In our report, our opinion was qualified because the financial statements were prepared in conformity with the accounting practices prescribed by the Public Service Commission of Kentucky. This practice is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Lyon County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under **Government Auditing Standards**.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lyon County Water District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting that we consider to be material weaknesses.

This report is intended solely for the information of the Members of the Commission of the Lyon County Water District, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Thurman, Campbell & Co.

February 15, 2002